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Author(s): R. Ichinomiya

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## THE FOREIGN TRADE OF JAPAN

*By R. Ichinomiya, Manager of the New York Branch of the  
Yokohama Specie Bank*

It is my purpose to present to you a brief review of what Japan has accomplished in her foreign trade, and at the same time to call your attention to a few points in the way of suggestions that may be of interest to students of the International relations of American commerce. There is no question but that Japanese foreign trade has made enormous strides since the breaking up of the policy of seclusion. Taking the total of the import and export trade during the year 1880, as representing a basis of one hundred units, and calculating from that the progress which the annual trade has subsequently made, we obtain the following results: 1880, 100 per cent; 1885, 102 per cent; 1890, 212 per cent; 1895, 408 per cent; 1900, 756 per cent; 1905, 1245 per cent; 1910, 1419 per cent; and in the last named year the grand total of imports and exports reached in value Yen 922,622,-804. That the rate of progress made in the initial stages was not as rapid as in later years is simply due to the primitive methods used then and to the many other difficulties to be met. It may not be amiss to mention a few of these difficulties.

The primary, and perhaps most serious, was in the ignorance of the foreigners and Japanese of one another's language and customs. Merchants, whether Japanese or foreign, could not, except in the rarest instances, confer with each other on business matters directly, and were compelled to employ special clerks, generally Chinese, as interpreters. The one aim of these men was to obtain their commission on the business done through their offices, just as now in the open ports of China, so that it was but natural that they should be indifferent to the development of trade. The only alternative was that one of the two parties, either the for-

eigners or the Japanese, should learn the other's language, trade customs and needs, with other relative matters, and so master the situation. And in this respect it would seem that the Japanese have taken the initiative. This tendency to do away with the middleman was extended to the Occidental merchants residing in Japan in so far as many of them were simply go-betweens, intermediaries between the *real* importers and exporters and not between the producers and consumers. They had little or no experience in actual trade, and usually lacked capital as well, but in the primitive stage of foreign trade they could get along nicely. Taking no pains to adapt themselves to the changing conditions, it was only natural that this class should have been gradually pushed aside when affairs became more orderly and real commercial competition came into existence, the result being the inevitable complaint against the winner of the business competition.

The reform of the monetary system was of very great assistance to the development of industry and the progress of trade. The national bank regulations, promulgated in 1872, modelled on the national bank act of the United States of America, being a total failure, an amendment to that act was passed in 1883 taking from the national banks the privilege of note issue and granting this exclusively to the newly-created Bank of Japan, a central institution, suitable measures being taken for the redemption of the outstanding national bank notes. Thus, by the end of 1885, there was no longer a disparity between paper money and coin, then mostly in silver, and in 1886 the system of specie payments was restored. The depreciation in the value of silver was always a great hindrance to the people in international commerce, however, and it was not until 1897 that this trade disadvantage, caused by an irregular and unstable fluctuation in exchange rates, ceased to exist when the imperial diet passed a statute on the currency and a portion of the gold received from China as an indemnity was applied to the national reserve. Thus the foundation of the gold standard system was firmly laid, and Japanese foreign trade entered upon its second stage of expansion.

With the development of transportation and communication both on land and sea, Japanese merchants were no longer dependent upon foreign firms established in Japan, but gradually began conducting the import and export business on their own account directly with foreign nations. The tendency of Japanese foreign commerce then took on a different aspect, and began to show a steady increase particularly in the importation of raw materials and in the export of finished articles, indicating the healthy growth of the home industries.

Apart from a consideration of the staple products of Japan for export, most important in determining the prospects of the country's foreign trade is the question as to what opportunities, facilities, aptitude and financial capacity Japan possesses for developing her industries. I may say without fear of contravention that the country contains practically all the elements essential for her great advancement industrially. Japan wants the raw material, for she cannot produce within her limited area all she requires for the industries which are bound to expand almost without limit. Her geographical advantage in lying between such countries as China, India, Australia and America, enables her to import at a moderate freight rate, such raw materials she may need as cotton, wool, the various minerals, etc. The only question that remains is for her to exercise a wise discretion in the choice of suitable markets in which to make such purchases. The supply of motive power is ample. Besides possessing extensive coal mines, the utilization of her fine water power is proceeding rapidly, the results to be seen in the electric-lighting, traction and many other fields. Japanese labor, skilled and unskilled, is plentiful, and in spite of the gradual rise in the standard of living, is still comparatively inexpensive. The increasing importation of the most modern machinery of all kinds, together with the increase in quantity of Japanese manufactured goods, certainly shows the knowledge and skill of the Japanese workman are not of low grade.

The only thing that Japan has lacked, and still lacks, for the development of her industries, is sufficient capital. In spite of the increase of national wealth it is to be regretted that the supply of working capital cannot keep pace with

the demand. The investment of foreign capital, therefore, is eagerly sought; and in this connection I may state that when foreign money is invested, the burden of the working end of the business should rest solely upon the Japanese, for the ability and trustworthiness of the younger generation in business affairs is beyond question, and the expense is very much less than for men of other nations.

Criticism of the commercial morality of the Japanese has been heard occasionally, and the employment of Chinese by foreign banks in Japan and China mentioned as an evidence. *The Japanese are not commercially unmoral.* To begin with, out of 2173 Japanese banks in Japan, with resources of 3634 million Yen, not one has ever employed a single Chinese with one exception, the Yokohama Specie Bank, Limited. This bank, it is true, did formerly employ a few Chinese in its Yokohama and Kobe offices, and for the one and only reason that those offices are engaged in the business of foreign exchange, especially in relation to business with China, but the bank has since discontinued the employment of Chinese, and no Chinese today employed by any bank or commercial concern in Japan. In European and American banks and mercantile houses conducting business in Japan the number of Chinese employees is very limited, if indeed any are still employed. These banks continue their employment simply because it was the Chinese who originally entered their service, and as long as they are willing to remain, there is no reason why they should be replaced by Japanese. These Chinese do not of course hold important positions, and were originally employed not because the Japanese were considered morally inferior to them, but for more practical reasons, one historical and the other commercial. China having for many years been a silver using country, and there being no proper coin of fixed weight, size and fineness, but silver bullion of every description as to fineness and size being used as a medium of exchange, the Chinese people have naturally become more or less experienced and trained not only to easily distinguish good silver from bad, but almost to tell its fineness by the ring of the metal when touched with a metal rod. It is

therefore quite natural that so-called silver experts are found among the Chinese. Considering the monetary system prevailing in China, these people are quite necessary for the banks that are carrying on business in that country. Before Japan adopted the gold standard, as I previously explained, silver was practically the only circulating medium in Japan. Even trade dollars were used to supplement the Japanese coinage. Japan having had legal tender notes and coin issued by the government for generations, her people naturally lacked the acquaintance with, and consequently the knowledge of silver bullion, and were not so well fitted to detect the variation in fineness as the Chinese experts. This is the reason why a few Chinese silver experts were at one time employed even in Japan by the Yokohama Specie Bank, Limited, a Japanese concern engaged in international exchange, and in similar lines; but with the gold standard firmly established in Japan, there was no longer a reason for the employment of Chinese silver experts in that bank or in any foreign banking institution in Japan.

There is also a commercial reason for the employment of Chinese by the foreign banks. According to commercial usage among the Chinese, the seller of a shipment of goods draws a clean bill of exchange upon the buyer, but not a documentary bill, i.e., a bill of exchange with the shipping documents attached. In other words, they do not hypothecate the goods to the bank as security for the draft. It is, therefore, difficult for the bank to determine whether a clean draft which they are about to negotiate, is actually commercial paper or not. To be able to act intelligently on this point, and also as there is no Chinese mercantile agency that can supply the desired information regarding the financial standing of Chinese merchants, as is practiced in Japan and elsewhere, it has been considered advantageous for the bank to employ a reliable Chinese whose influence and financial responsibility may be sufficient to safeguard the interests of the banks. But, as I have stated before, the tendency to do away with any kind of middlemen, and to reach the objective directly and straight, seems to prevail also in this direc-

tion; and as far as Japan and Japanese institutions whether banking or commercial are concerned, there no longer exists any necessity for Chinese employment.

In order to further explain the increase of foreign commerce along the lines of the fundamental principle of trade progress, I will take the aggregate import and export figures, for the year 1901, of raw or partly manufactured materials on the one side and the finished products on the other, the unit being 100, and compare them with the ten years following. Thus:

YEAR	EXPORT		IMPORT	
	Raw or half manu- factured material	Finished articles	Raw or half manu- factured material	Finished articles
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1901.....	100	100	100	100
1902.....	99	103	126	73
1903.....	103	124	150	75
1904.....	109	139	167	83
1905.....	95	137	193	127*
1906.....	135	157	149	129*
1907.....	152	147	198	131*
1908.....	132	124	164	92
1909.....	147	143	173	87
1910.....	153	168	217	85

\* The increase in the years 1905-06-07 is due to the effect of the Russo-Japanese war and the subsequent post-bellum boom.

The progress and expansion of any undertaking depends internally upon the material influences and externally follow the lines of least resistance. When the above figures are analyzed it is interesting to note that while the raw or half manufactured materials have increased largely in both export and import generally, the manufactured articles imported to Japan, do not correspond with such an increase. On the contrary, in the case of exports, these will show a very large increase in the trade with those countries where the home industries are not much advanced, but a smaller increase, or rather a decrease, to those countries where home industries are in a flourishing condition. Even though making due allowance for the effect of the tariff, the following figures of

the trade with the United States of America and China will clearly indicate this tendency:

*To the United States of America*

YEAR	EXPORT		IMPORT	
	Raw or half manu- factured materials	Manufactured goods	Raw or half manu- factured materials	Manufactured goods
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
1901.....	100	100	100	100
1902.....	114	101	122	76
1903.....	108	135	110	96
1904.....	134	158	144	97
1905.....	120	161	234	284
1906.....	174	171	177	130
1907.....	185	168	198	145
1908.....	179	130	183	171
1909.....	196	133	137	79
1910.....	204	180	133	105

*To China*

1901.....	100	100	100	100
1902.....	114	108	154	59
1903.....	156	193	173	68
1904.....	180	152	209	70
1905.....	260	221	202	35
1906.....	225	290	221	33
1907.....	261	243	257	23
1908.....	161	188	246	36
1909.....	140	229	251	37
1910.....	135	289	304	14

The antiquated idea that one may gain by underselling another is giving place to the belief that ultimate success must come through coöperation. Unhealthy price-cutting competition will naturally result in a deterioration in quality; and even if one succeeds, after a prolonged struggle, perhaps selling at a loss, in beating down his competitors, he will awake to a realization that his market is gone and that there is no longer a demand for his product at all commensurate with the damage done to it. In direct foreign trade Japanese merchants have had a number of such unfortunate experiences. For example, I may mention that Japanese mattings, imported into the United States of America, were subjected



to duty of 3 cents per square yard on quality up to a cost value of Yen 7.71 per roll, and on anything above that value were subject to a duty of 7 cents per square yard and 25 per cent *ad valorem* additional, the idea being to make the importation of the finer sort of Japanese matting absolutely impossible, so protecting the American carpet manufacturers. This arrangement put practically the maximum limit on the price of Japanese matting to be imported. In spite of the difference between the maximum and minimum limit, which is the cost of producing, being thus very small, the Japanese attempted a cut-throat competition with one another in the sale of mattings, this naturally resulting in the deterioration of the quality of goods and nearly in the destruction of the market. Reestablishment of the market and improvement in quality have since been in order, but even under the recent tariff revision, it seems to take a very much longer period and still harder labor to restore the old market.

I do not mean to say that there should be no competition, but I do mean that competition of a negative character always results in harm to the trade. On the contrary, if competition is directed toward the positive side, that is toward improvement in quality at the same price, more durability and usefulness, reduction in the cost of production, prompt delivery, better and cheaper transportation facilities, etc., the result may be altogether different. There is an old Japanese proverb which reads, "There is no poverty that overtakes a handworker," meaning that prosperity is only the reward of hard work. This is now obsolete, and does not hold good in our modern business. Hard work along the same old line does not bring satisfactory results; all it can hope to accomplish is the maintenance of the old position without advancement. Hard work accompanied by improvement in methods will alone obtain progress. In pushing the foreign trade, the most important qualification is the knowledge of the language and customs of the people that are met with in that trade. Wants and requirements of a local and particular character must from time to time be investigated and studied so as to leave no changes unnoted. In the trade with the Orient, especially with China, where a vast future is in store, it is not so easy a matter to meet the requirements. In this

respect I can safely say that the Japanese, owing to their geographical, racial and linguistic advantages, are the people best fitted to acquire the foremost position. Next to the Japanese will come the Germans. If you will notice how the German merchants both in China and at home are working along the line I have indicated, you will not wonder that they have made such remarkable progress in the Oriental trade during the past few years.

The Germans at home for instance have had a school of Oriental languages, including Japanese, for fifteen years, and are studying every method to push the sale of their merchandise in East Asia. Some of the German salesmen go so far as to adopt the Chinese dress and Chinese queue. You are aware how the Chinese cling to their calendar. The Germans have noticed this, and never fail to mark their goods according to it. If, for instance, it is the year of horse, the Germans print a figure of a horse on the goods to be sold to the Chinese that year. So, in what might seem trivial matters they seek the good will of their customers. These things are perhaps difficult for the Occidental manufacturers to understand; but unless they do try to understand them, they can never hope to obtain and retain a strong foothold in the Oriental trade. Chinese habits and traits, in particular, are difficult for Western people to comprehend, but so long as China is talked of as one of the world's greatest markets, then, intending traders will have to surmount these difficulties in one way or another. In this connection, what seems to me the most practical and natural way is to bring about coöperation of the Western manufacturers and Japanese merchants, the Western manufacturers attending to the productive end and the Japanese to the selling end of the business. A few of such coöperations has already been proved by experience. The General Electric Company is manufacturing and selling electric machinery in Japan in coöperation with the Shibaura Works of Tokyo. The Western Electric Company is in similar coöperation with the Japan Electric Company. These coöperative methods have been remarkably successful. Vickers and Maxim of England have established a steel foundry in Japan in coöperation with the Hokkaido Colliery and Steamship Company of Japan.

In any coöperation of American manufacturers and Japanese merchants, the Americans will probably have to supply the raw material, and skill of a certain kind, perhaps one or two superintending engineers and foremen. The Japanese must attend to the selling end in Japan and China. They are better qualified for that part of the business than the Americans, for they understand the customs and tastes of the Chinese, and have facilities in promoting the trade not possessed by the Western people. Successful manufacturers are not always successful salesmen, and no business can prosper unless it prospers at the selling end. This consideration seems to emphasize the advisability of the American manufacturers seeking Japanese coöperation. Frequent trouble occurs, however, when the Western people demand a controlling power in a company to be established in Japan upon such a coöperative basis. If the Western people insist upon such a controlling power, then it would be useless to attempt to start a coöperative business. It would defeat the object of the coöperation fundamentally. The usefulness of the Japanese in the coöperative arrangement comes from the exact knowledge of the requirements of the consumers, and how to comply with those requirements, a condition essential to the making of any business successful. Now if the Western people have the controlling power in the coöperative factories, they will not adopt the suggestions made by the Japanese in the way of satisfying the peculiar tastes of the Oriental consumers, and will model their manufactories and their products in the Western way. The desire of the Western people to have the controlling power in the factory to be established in the East, has been and will continue to be a stumbling block in the way of the successful execution of any coöperative business. If the American people attempt the coöperation on broad principles, and with a trusting spirit towards the Japanese, the system will prove one of the most successful of modern business methods. The Japanese, I can say without hesitation, are ready and willing to avail themselves of such opportunities; and they will stand for the principles of "the open door and equal opportunity" both in domestic and foreign trade.